

CITY OF HUDSON

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2009

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City of Hudson

Officials

Bernie Jensen	Mayor	Dec 2009
David Spake	Mayor Pro tem	Dec 2011
George Wessel	Council Member	Dec 2011
Robert Grittmann	Council Member	Dec 2009
Allen Schneider	Council Member	Dec 2011
Dennis Sadler	Council Member	Dec 2009
Sandie Deahl	City Clerk/Treasurer	January 1, 2010
Richard Hansen	Attorney	Indefinite

City of Hudson

James R. Ridihalgh, C.P.A.
Gene L. Fuelling, C.P.A.
Donald A. Snitker, C.P.A.

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hudson, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Hudson's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hudson as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 16, 2009 on our consideration of the City of Hudson's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages I through V and budgetary comparison information on pages 21 through 22 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management

regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hudson's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.".

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

November 16, 2009

The Electric Fund cash balance decreased from \$1.964 million to \$16,503 due to the creation and transfer of assets to the Hudson Municipal Electric Utility Board and the City's Hudson Reserve Fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. This adjustment allowed for revenues to be increased by \$816,743 and to reduce the expenditures by \$378,407. The net result of the amendments was an ending budget balance of \$3.863 million versus \$4.431 million as originally budgeted. The amendments were to facilitate creation and transfer to the Hudson Municipal Electric Utility as well as purchase a new fire truck in the amount of \$323,000. The ending budgeted cash balance was \$3.864 million while actual cash balance as of June 30, 2009 was \$3.050 million. This difference was attributed to the transfer and set up of the Hudson Municipal Electric Utility.

DEBT ADMINISTRATION

At June 30, 2009 the City had \$2.400 million of General Obligation Capital Loan Notes outstanding. The City also has \$553,000 in an outstanding Water Fund Revenue Bond, as well as \$299,000 in outstanding Sewer Fund Revenue Bond. The net comparison since 2007 is shown below:

Outstanding Debt at Year End
(Expressed in Thousands)

Description	2009	2008	2007
General Obligation-Capital Loan Note	2400	2500	2600
Water Revenue Capital Loan Note	553	578	602
Sewer Revenue Capital Loan Note	299	318	338
Total Outstanding Debt	5261	3396	3540

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,400,000 is below the constitutional debt limit of \$7.40 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Hudson's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget.

Budget for 2010 indicates an increase to capital projects in Intergovernmental Revenues, as well as a reduction in Transfers which decreases total revenues from \$4.303 million Re-estimated FY 2009 to \$3.029 million for Budget Revenues 2010. Expenditures listed at \$3.692 million for the Re-estimated FY 2009, while the 2010 Budget Expenditures reflects \$3.018 million. This reduction in expenditures is due to the purchase of a fire truck in the amount of \$323,000 in Fiscal Year 2009. The council controlled growth in expenditures to revenues received which created a shortfall of revenue to cover reserve programs. There are limited reserve programs in the 2010 budget that are not supported through separate agreements structures such as Township Levy Agreements for the Fire and Ambulance Departments.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Sandie Deahl, City Clerk, 525 Jefferson Street, Hudson, Iowa, 50643. Phone (319) 988-3600.

MANAGEMENT DISCUSSION AND ANALYSIS

The City of Hudson provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- The City's revenues decreased \$1,298,000 from fiscal year 2008 to fiscal year 2009. Receipts in the City's governmental funds decreased by \$11,000, receipts in the City's business funds decreased by \$1,287,000. The decrease in governmental and business funds revenues reflects creation of a separate electric utility board to govern revenues versus city management.
- Disbursements decreased \$126,000 from fiscal year 2008. Decreased expenses in the Governmental funds were decreased by \$74,000 and decreased expenses in the Business funds were \$52,000. The decrease in governmental and business funds spending reflects creation of a separate electric utility board to govern expenses versus city management.
- The City's total cash basis net assets decreased \$1,219,768 from fiscal year 2008 to fiscal Year 2009 to a total of \$3,050,301. The decrease in the cash basis reflects transfer of assets \$849,000 to Hudson Municipal Electric Utility as well as decrease in expected revenues due to asset transfer.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole, better off or worse off, as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the electric utility, water utility, sanitary sewer system and the solid waste disposal funds. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, including the Rural Fire Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing Fund, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements, and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the Electric, and Sewer funds, considered to be major funds of the City, and the Water, Solid Waste Disposal and Meter Deposit funds considered to be non-major funds of the City. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Hudson utilizes no internal service funds.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the city of Hudson completed the year, its governmental funds reported a combined fund balance of \$2.209 million, a increase of \$873,551 from last year's balance of \$1.335 million. The following are major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$847,917 from the prior year to \$1.612 million due primarily to council direction to create the Hudson Reserve Fund as a special fund within the General Fund.

The Hudson Reserve Fund was created per council action with a beginning balance of \$1.121 million.

The Road Use Tax Fund cash balance increased by \$43,868 from the prior year to \$5,609 due primarily to expenditures related to capital projects completed during the year.

The Tax Increment Finance (TIF) Fund was established to account for a major urban renewal project with the City's business district. At the end of the prior fiscal year, the cash balance in the TIF Fund was \$145,736 with an increase to last year's balance of \$3,595.

The Debt Service Fund recorded transfers of \$86,553 from the TIF Fund, \$97,442 from the Road Use Fund, \$18,942 from the Sewer Fund. The remaining balance on the Debt Service Fund is (\$391).

The Local Option Sales Tax Fund had receipts of 258,904 and then transferred \$185,579 to the general fund. The net result was an increase of \$73,325 leaving an ending Local Option Sales Tax Fund balance of \$438,544.

The Water Fund cash balance decreased by \$71,813 due to expenses with painting the city water tower and other contractual services. Ending fund balance for the Water Fund is \$415,903.

The Sewer Fund cash balance decreased by \$59,705 due to expenses with lining the sewer mains and other contractual services. Ending fund balance for the Sewer Fund is \$383,813.

Basic Financial Statements

City of Hudson

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2009

Functions / Programs:	Disbursements	Program Receipts	
		Charges for Service	Oper. Grants, Contributions, and Restricted Interest
Governmental activities:			
Public safety	\$ 733,212	107,333	19,297
Public works	325,640	-	175,647
Health and social services	3,045	-	-
Culture and recreation	306,881	17,034	27,679
Community and economic development	41,409	18,426	-
General government	239,283	21,489	-
Debt service	203,338	-	-
Capital projects	2,821	-	-
Total governmental activities	1,855,629	164,282	222,623
Business type activities:			
Sewer	240,022	189,510	-
Electric	848,614	410	-
Water	301,630	216,772	-
Nonmajor business type funds	126,421	108,665	-
Total business type activities	1,516,687	515,357	-
Total	\$ 3,372,316	679,639	222,623

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
 Local option sales tax
 Unrestricted interest
 Rents
 Miscellaneous
 Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Special Revenue
 Capital projects
 Debt service

Unrestricted

Total cash basis net assets

See notes to financial statements

Capital Grants, Contributions and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
-	(606,582)	-	(606,582)
41,786	(108,207)	-	(108,207)
-	(3,045)	-	(3,045)
1,000	(261,168)	-	(261,168)
-	(22,983)	-	(22,983)
-	(219,016)	-	(219,016)
-	(203,338)	-	(203,338)
-	(2,821)	-	(2,821)
42,786	(1,427,160)	-	(1,427,160)
-	-	(50,512)	(50,512)
-	-	(848,204)	(848,204)
-	-	(84,858)	(84,858)
-	-	(17,756)	(17,756)
-	-	(1,001,330)	(1,001,330)
42,786	(1,427,160)	(1,001,330)	(2,428,490)
702,181	-	-	702,181
85,849	-	-	85,849
-	-	-	-
256,879	-	-	256,879
54,209	25,457	-	79,666
4,207	-	-	4,207
57,000	19,279	-	76,279
1,140,386	(1,140,386)	-	-
2,300,711	(1,095,650)	-	1,205,061
873,551	(2,096,980)	-	(1,223,429)
1,335,276	2,938,453	-	4,273,729
\$2,208,827	841,473	-	3,050,300
158,343	-	-	158,343
438,152	-	-	438,152
-	-	-	-
1,612,332	841,473	-	2,453,805
\$2,208,827	841,473	-	3,050,300

Service	Nonmajor	
G.O. Capital	Governmental	
Note #202	Funds	Total
-	113,208	702,182
-	85,849	85,849
-	-	256,879
-	-	39,445
-	-	109,803
-	-	310,263
-	-	65,139
-	-	-
-	-	20,456
-	199,057	1,590,016
-	-	733,212
-	-	325,640
-	-	3,045
-	-	306,881
-	2,821	44,230
-	-	240,505
203,338	-	203,338
-	-	-
203,338	2,821	1,856,851
(203,338)	196,236	(266,835)
202,937	-	1,676,660
-	(203,253)	(536,274)
202,937	(203,253)	1,140,386
(401)	(7,017)	873,551
10	14,014	1,335,276
(391)	6,997	2,208,827
-	-	1,612,332
-	6,997	158,343
(391)	-	438,152
-	-	-
(391)	6,997	2,208,827

City of Hudson

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds

As of and for the year ended June 30, 2009

Total governmental funds cash balances	\$ 2,208,827
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The city does not have an internal service fund.
Therefore there are no reconciling items.

-

Cash basis net assets of governmental activities	\$ 2,208,827
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Net change in cash balances	\$ 873,551
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The city does not have an internal service fund.
Therefore there are no reconciling items.

-

Change in cash balance of governmental activities	\$ 873,551
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See notes to financial statements

City of Hudson

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2009

	Sewer	Electric	Water	Nonmajor	Total
Operating receipts:					
Use of money and property	\$ 9,749	2,663	13,045	-	25,457
Charges for service	189,510	410	216,772	108,665	515,357
Miscellaneous		19,279	-	-	19,279
Total operating receipts	199,259	22,352	229,817	108,665	560,093
Operating disbursements:					
Business type activities	209,657	848,614	257,845	126,421	1,442,537
Total operating disbursements	209,657	848,614	257,845	126,421	1,442,537
Excess (deficiency) of receipts over (under) disbursements	(10,398)	(826,262)	(28,028)	(17,756)	(882,444)
Non-operating receipts (disbursements):					
Operating transfers in	-	-	-	-	-
Operating transfers out	(18,942)	(1,121,444)	-	-	(1,140,386)
Debt service	(30,365)	-	(43,785)	-	(74,150)
Total financing sources(uses)	(49,307)	(1,121,444)	(43,785)	-	(1,214,536)
Net change in cash balances	(59,705)	(1,947,706)	(71,813)	(17,756)	(2,096,980)
Cash balances beginning of year	443,518	1,964,163	487,716	43,056	2,938,453
Cash balances end of year	\$383,813	16,457	415,903	25,300	841,473
Cash Basis Fund Balances					
Unreserved	\$383,813	16,457	415,903	25,300	841,473
Total cash basis fund balances	\$383,813	16,457	415,903	25,300	841,473

See notes to financial statements

City of Hudson

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds

As of and for the year ended June 30, 2009

Total enterprise funds cash balances	\$ 841,473
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The city does not have an internal service fund.
Therefore there are no reconciling items.

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Cash basis net assets of business type activities	\$ 841,473
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Net change in cash balances	\$ (2,096,980)
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The city does not have an internal service fund.
Therefore there are no reconciling items.

-

Change in cash balance of business type activities	\$ (2,096,980)
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See notes to financial statements

City of Hudson

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

The City of Hudson is a political subdivision of the State of Iowa located in Black Hawk County. It was first incorporated in 1893 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and solid waste utilities for its citizens.

These financial statements present the City of Hudson (the primary government) and excludes Hudson Municipal Electric Utility (HMEU). HMEU is a legally separate from the City, but has the potential to provide specific benefits to, or impose specific burdens on the City. The Utility is governed by a five member board appointed by the Mayor and approved by the City Council. HMEU is a public utility providing electrical service to the citizens of Hudson. Complete financial statements can be obtained from the Utility's administrative office.

A. Reporting Entity

For financial reporting purposes, the City of Hudson has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The City is represented on the Black Hawk County Consolidated Public Safety Communications Board and the Black Hawk County Solid Waste Management Commission.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Capital Project:

The Local Option Tax Fund is used to account for the receipt and disbursement of the Local Option Tax.

Special Revenue:

The Road Use Tax Fund is used to account for the receipt and disbursement of Road Use Tax Funds.

Debt Service:

TIF Surplus Fund is used to account for receipt and disbursement of TIF Funds.

The Debt Service Fund is used to account for the receipt and disbursement of funds as they pertain to the City's debt.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Electric Fund accounts for receipt and disbursement of funds of the prior electric operation of the City.

The Water Fund accounts for the operation and maintenance of the City's water system.

C. Measurement Focus and Basis of Accounting

The City of Hudson maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and/or general receipts. Thus, when program disbursements are paid, there may be both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of June 30, 2009, the City had no investments, as all ending fund balances were in the form of certificates of deposit, savings accounts and checking accounts.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity of the General Obligation Capital Loan Notes and Revenue Bonds are as follows:

Year Ending Jun	Capital Obligation <u>Capital Loan Notes</u>		Sewer Revenue Bonds Clean Water SRF		Water Revenue Bonds Drinking Water SRF		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	100,000	98,938	20,000	8,968	26,000	16,740	146,000	124,646
2011	105,000	94,938	21,000	8,368	26,000	15,960	152,000	119,266
2012	110,000	90,738	22,000	7,738	27,000	15,180	159,000	113,656
2013	110,000	86,338	22,000	7,078	28,000	14,370	160,000	107,786
2014	115,000	82,102	23,000	6,418	29,000	13,530	167,000	102,050
2015-2019	665,000	336,938	124,000	21,440	158,000	54,030	947,000	412,408
2020-2024	815,000	187,400	66,923	3,564	183,000	29,010	1,064,923	219,974
2025-2027	<u>380,000</u>	<u>24,726</u>	<u>-</u>	<u>-</u>	<u>76,000</u>	<u>3,660</u>	<u>456,000</u>	<u>28,386</u>
	<u>2,400,000</u>	<u>1,002,118</u>	<u>298,923</u>	<u>63,574</u>	<u>553,000</u>	<u>162,480</u>	<u>3,251,923</u>	<u>1,228,172</u>

Capital Obligation – Capital Loan Notes:

The City issued \$2,600,000 General Obligation Capital Loan Notes, dated June 1, 2006, with variable interest ranging from 3.85% to 4.30%. The notes were issued for the purpose of paying costs of construction of improvements or extensions to the Municipal Water Utility, and construction or reconstruction of streets, water, sewer and storm sewer, together with related work.

- Principal and interest on the notes will be paid from the Debt Service Fund.
- The notes are subject to prepayment at the option of the Issuer; as a whole or in part, in any order of maturity and within a maturity by lot from any source of available funds, beginning June 1, 2012 and on any date thereafter, at a prepayment price equal to the principal amount of the Notes, together with accrued interest to the date fixed for prepayment, without premium.

Revenue Bonds:

The City has two Revenue Bonds from Iowa Finance Authority and its partner Iowa Department of Natural Resources through the State Revolving Fund.

\$500,000 Sewer Revenue Capital Loan Note (SRF):

The Sewer Revenue Capital Loan Note, series 2006, with a principal sum of \$500,000 has an interest rate of 3% and matures June 1, 2026. As of June 30, 2009 the City had borrowed \$356,923 on this note. The funds were used in conjunction with other City funds to construct a diffuser across the receiving stream with the objective of meeting NPDES effluent limits. This

project also includes the repair of the lagoon liner to prevent leakage. Sludge removal and installation of emergency power are also part of facility improvements. There are three collection system improvements proposed to replace existing sewers because they are hydraulically overloaded and have excessive infiltration and inflow."

Interest is payable semiannually on the 1st day of June and December in each year. Principal is payable annually on the first day of June. The City paid \$9,568 interest and \$20,000 in principal during year ended June 30, 2009.

The note is subject to optional redemption at a price of par plus accrued interest on any interest payment date after the ten (10) year anniversary date of the Loan and Disbursement Agreement. Any optional redemption of this Note may be made from any funds regardless of source, in whole or from time to time in part, in reverse order of maturity, by lot by giving thirty (30) days notice of redemption by certified or registered mail, to the Iowa Finance Authority or other registered owner of the Note.

The City is to set up a Sinking Fund to receipt money from the Revenue Fund for the purpose of paying principal and interest on the Notes. The fund shall be known as the "Sewer Revenue Note Principal and Interest Sinking Fund (the "Sinking Fund"). The required amount to be deposited in the Sinking Fund in any month shall be an amount equal to 1/6th of the installment of interest coming due on the next interest payment date on the then outstanding Notes and Parity Obligations, plus 1/12th of the installment of principal coming due on such Notes on the next succeeding principal payment date until the full amount of such installment is on hand. If the amount in the Sinking Fund exceeds the required amount, the excess shall forthwith be withdrawn and paid into the Revenue Fund. Money in the Sinking Fund shall be used solely for the purpose of paying principal of and interest on the Notes and Parity Obligations as the same shall become due and payable. As of June 30, 2009 the City had not set up the Sinking Fund. See Schedule of Findings and Questioned Costs, II-E-09.

\$630,000 Water Revenue Capital Loan Note:

The Water Revenue Capital Loan Note, series 2006, with a principal sum of \$630,000 has an interest rate of 3% and matures June 1, 2026. As of June 30, 2008 the City had borrowed \$625,000 on this note. The funds were used for the purpose of paying costs of construction of certain improvements and extensions to the Municipal Water Utility of the City.

Interest is payable semiannually on the 1st day of June and December in each year. Principal is payable annually on the first day of June. The City paid \$17,340 in interest and \$25,000 in principal during year ended June 30, 2009.

The note is subject to optional redemption at a price of par plus accrued interest on any interest payment date after the ten (10) year anniversary date of the Loan and Disbursement Agreement. Any optional redemption of this Note may be made from any funds regardless of source, in whole or from time to time in part, in reverse order of maturity, by lot by giving thirty (30) days notice of redemption by certified or registered mail, to the Iowa Finance Authority or other registered owner of the Note.

The City is to set up a Sinking Fund to receipt money from the Revenue Fund for the purpose of paying principal and interest on the Notes. The fund shall be

known as the "Water Revenue Note Principal and Interest Sinking Fund (the "Sinking Fund"). The required amount to be deposited in the Sinking Fund in any month shall be an amount equal to 1/6th of the installment of interest coming due on the next interest payment date on the then outstanding Notes and Parity Obligations, plus 1/12th of the installment of principal coming due on such Notes on the next succeeding principal payment date until the full amount of such installment is on hand. If the amount in the Sinking Fund exceeds the required amount, the excess shall forthwith be withdrawn and paid into the Revenue Fund. Money in the Sinking Fund shall be used solely for the purpose of paying principal of and interest on the Notes and Parity Obligations as the same shall become due and payable. As of June 30, 2009 the City had not set up the Sinking Fund. See Schedule of Findings and Questioned Cost, II-E-09.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$38,771, \$39,352 and \$37,973 respectively, equal to the required contributions for each year.

(5) Compensated Absences

City of Hudson employees accumulate a limited amount of earned but unused vacation and sick leave hours based on the length of employment. It is payable when used and may be accumulated at a rate of 10 days per year, to a maximum of 90 days. At termination, employees with accumulated sick leave will be paid 15% of their accumulated sick leave. Vacation is payable when used and accumulates based on an employee's anniversary date. Vacation may be accumulated past the anniversary date in isolated cases specifically approved by the City council. The City also has a policy of paying an employee up to 50% of the employee's accumulated vacation time, at the current pay rate. Employees are also able to convert unpaid overtime hours into comp time at time and one-half. These accumulations are not recognized as disbursements by the City until used or paid. At termination, the City is liable for earned vacation, for comp time, and for accumulated sick leave. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2009 is \$15,948. The City's approximate liability for earned comp time payable to employees at June 30, 2009 is \$10,273. The City's approximate liability for sick leave at June 30, 2009 is \$12,128. This liability has been computed based on rates of pay in effect at June 30, 2009.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Capital Projects:	
	Local Option	\$ 185,579
	Business Type:	
	Electric	1,121,444
	Special Revenue:	
	Rut	50,000
	Employee Benefits	<u>116,700</u>
		<u>1,473,723</u>
Debt Service:	TIF – Special Revenue	86,553
	Road Use Tax	97,442
	Business Type:	
	Sewer	<u>18,942</u>
		<u>202,937</u>
Total Interfund Transfers		<u>\$1,676,660</u>

(7) Related Party Transactions

The City had business transactions between the City and City employees totaling \$5,785 during the year ended June 30, 2009.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Deficit Balance

The Special Revenue-Employee Benefits and TIF Funds and the G.O. Capital Note Fund had a deficit balances at June 30, 2009. The City will eliminate with the receipt of funds or the transfer of funds.

(10) Landfill Commitment

The City of Hudson participates in a 28E organization with Black Hawk County and other cities in Black Hawk County. This organization is the Black Hawk County Solid Waste Management Commission.

(11) Hudson Municipal Communications Utility

The City has formed a Hudson Municipal Communication Utility (HMCU) under code section 388.10.2 to determine status of telecommunications for the City of Hudson. MCU's financial activity will be kept separate from the City and it will receive its own audit. During the year ended June 30, 2006 The City loaned MCU \$5,000.

During the year ended June 30, 2007, The City loaned MCU \$15,000.

During the year ended June 30, 2009 HMCU paid \$13,485 in principal and \$1,000 in interest on the above loan. This leaves of balance of \$6,515 due as of June 30, 2009.

(12) Hudson Electric Municipal Utility

The City has formed Hudson Municipal Electric Utility (HMEU) and transferred \$35,000 during the year ended June 30, 2008 as start up costs. On July 1, 2008 the City transferred \$804,660 to Hudson Electric Municipal Utility.

On July 1, 2008 Hudson Municipal Electric Utility (HMEU) took over all electric operations of the City. From July 1, 2008 to December 15, 2008 HMEU did the billing and collection on all utilities of the City, retaining collections for electric billing and submitting all other collections to the City. On December 15, 2008 the City resumed billing and collection for all utilities except electric billing. HMEU did electric billing and collection exclusively as of that date.

(13) Equipment Leases

The City had a lease with Waterloo Implement for a John Deere Tractor and a #673 John Deere loader. The City paid \$5,000 on the lease for the year ended June 30, 2009.

The City has a lease with Waterloo Implement for a John Deere zero turn mower. The lease is for the period May 1, 2009 to December 1, 2009. the city paid \$2,700 on this lease for the year ended June 30, 2009.

(14) Litigation

There is no pending litigation pending involving the City of Hudson.

(15) Subsequent Events

No significant subsequent events were noted.

Required Supplementary Information

Budgetary Comparison Schedule
of Receipts, disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary F
Required Supplementary Information

Year ended June 30, 2009

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 702,182	-
Tax increment financing collections	85,849	-
Other city tax	256,879	-
Licenses and permits	39,446	-
Use of money and property	109,803	25,457
Intergovernmental	304,243	-
Charges for service	65,139	515,357
Special assessments	-	-
Miscellaneous	26,476	19,279
Total receipts	<u>1,590,016</u>	<u>560,093</u>
Disbursements:		
Public safety	733,212	-
Public works	325,640	-
Health and social services	3,045	-
Culture and recreation	306,881	-
Community and economic development	44,230	-
General government	240,505	-
Debt service	203,338	74,150
Capital projects	-	-
Business type activities	-	1,442,537
Total disbursements	<u>1,856,851</u>	<u>1,516,687</u>
Excess of receipts over disbursements	(266,835)	(956,594)
Other financing sources, net	<u>1,140,386</u>	<u>(1,140,386)</u>
Excess of receipts and other financing sources over disbursements and other financing uses	873,551	(2,096,980)
Balances beginning of year	<u>1,335,276</u>	<u>2,938,453</u>
Balances end of year	<u>\$ 2,208,827</u>	<u>841,473</u>

See accompanying independent auditor's report.

unds

Less Funds not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
		Original	Final	
-	702,182	701,937	701,937	245
-	85,849	86,553	86,553	(704)
-	256,879	222,502	242,502	14,377
-	39,446	22,550	22,550	16,896
-	135,260	87,900	87,900	47,360
-	304,243	300,827	314,827	(10,584)
-	580,496	1,917,514	1,930,514	(1,350,018)
-	-	-	-	-
-	45,755	17,400	26,200	19,555
-	2,150,110	3,357,183	3,412,983	(1,262,873)
-	733,212	497,333	840,133	106,921
-	325,640	218,134	238,134	(87,506)
-	3,045	3,000	3,100	55
-	306,881	342,500	347,500	40,619
-	44,230	43,011	45,011	781
-	240,505	317,422	325,322	84,817
-	277,488	195,648	195,648	(81,840)
-	-	-	-	-
-	1,442,537	1,740,135	1,697,208	254,671
-	3,373,538	3,357,183	3,692,056	318,518
-	(1,223,428)	-	(279,073)	(944,355)
-	-	-	335,000	(335,000)
-	(1,223,428)	-	55,927	(1,279,355)
-	4,273,729	3,808,037	3,808,037	465,692
-	3,050,301	3,808,037	3,863,964	(813,663)

City of Hudson

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget was amended and increased budgeted receipts by \$65,800 and increased budgeted disbursements by \$65,800.

City of Hudson

Other Supplementary Information

City of Hudson

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2009

	Special Revenue			
	#112 Employee Benefits	#127 TIF	#125 TIF CAP PROJ	Total
Receipts:				
Property tax	\$ 113,208	-	-	113,208
Tax increment financing collections	-	85,849	-	85,849
Other city tax	-	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	-
Total receipts	113,208	85,849	-	199,057
Disbursements:				
Operating:				
Public works	-	-	-	-
Community and economic developmen	-	-	2,821	2,821
Debt service	-	-	-	-
Capital Projects	-	-	-	-
Total disbursements	-	-	2,821	2,821
Excess (deficiency) of receipts over (under) disbursements	113,208	85,849	(2,821)	196,236
Other financing sources:				
Operating transfers in	-	-	-	-
Operating transfers out	(116,700)	(86,553)	-	(203,253)
Net change in cash balances	(3,492)	(704)	(2,821)	(7,017)
Cash balances beginning of year	(589)	445	14,158	14,014
Cash balances end of year	\$ (4,081)	(259)	11,337	6,997

Cash Basis Fund Balances

Unreserved:				
Special revenue	\$ (4,081)	(259)	-	(4,340)
Debt service	-	-	-	-
Capital projects fund	-	-	11,337	11,337
Total cash basis fund balances	\$ (4,081)	(259)	11,337	6,997

See accompanying independent auditor's report

City of Hudson

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2009

	Meter Deposits	Solid Waste	Total
Operating Receipts:			
Charges for service	\$ -	108,665	108,665
Use of money and property	-	-	-
Miscellaneous	-	-	-
Total operating receipts	-	108,665	108,665
Operating Disbursements:			
Business type activities	11,137	115,284	126,421
Total operating disbursements	11,137	115,284	126,421
Excess (deficiency) of receipts over (under) disbursements	(11,137)	(6,619)	(17,756)
Other financing sources:			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Net change in cash balances	(11,137)	(6,619)	(17,756)
Cash balances beginning of year	11,073	31,983	43,056
Cash balances end of year	\$ (64)	25,364	25,300
Cash Basis Fund Balances			
Unreserved:	\$ (64)	25,364	25,300
Total cash basis fund balances	\$ (64)	25,364	25,300

See accompanying independent auditor's report

City of Hudson

Schedule of Indebtedness

Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year
General Obligation Capital Loan Notes, Series 2006	June 1, 2006	3.85-4.30%	\$2,600,000	<u>2,500,000</u>
Water Revenue Capital Loan Note, Series 2006, DWSRF	June 16, 2006	3.00%	630,000	<u>578,000</u>
Sewer Revenue Capital Loan Notes, Series 2006 CWSRF	June 16, 2006	3.00%	500,000	<u>318,923</u>

See accompanying independent auditor's report

Schedule 3

Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
-	100,000	2,400,000	102,938	-
-	25,000	553,000	17,340	-
-	20,000	298,923	9,568	-

City of Hudson

Bond and Note Maturities

June 30, 2009

Year Ending June 30,	General Obligation Capital Loan Notes		Sewer Revenue Clean Water SRF		Water Revenue Drinking Water SRF	
	Issued June 1, 2006		Issued June 16, 2006		Issued June 16, 2006	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2010	4.00	100,000	3.00	20,000	3.00	26,000
2011	4.00	105,000	3.00	21,000	3.00	26,000
2012	4.00	110,000	3.00	22,000	3.00	27,000
2013	3.85	110,000	3.00	22,000	3.00	28,000
2014	3.90	115,000	3.00	23,000	3.00	29,000
2015	3.95	125,000	3.00	23,000	3.00	30,000
2016	4.00	125,000	3.00	24,000	3.00	31,000
2017	4.10	130,000	3.00	25,000	3.00	32,000
2018	4.10	140,000	3.00	26,000	3.00	32,000
2019	4.10	145,000	3.00	26,000	3.00	33,000
2020	4.15	155,000	3.00	27,000	3.00	34,000
2021	4.20	155,000	3.00	28,000	3.00	35,000
2022	4.20	160,000	3.00	11,923	3.00	37,000
2023	4.25	170,000	3.00	-	3.00	38,000
2024	4.25	175,000	3.00	-	3.00	39,000
2025	4.30	185,000	3.00	-	3.00	40,000
2026	4.30	195,000	3.00	-	3.00	36,000
		<u>\$2,400,000</u>		<u>298,923</u>		<u>553,000</u>

Note:

Sewer Revenue Note totals \$500,000, but at June 30, 2009 the City had borrowed only \$356,923 and had paid back \$58,000 leaving a balance of \$298,923. The above is based on the original schedule.

Water Revenue Note totals \$630,000, but at June 30, 2009 the City had borrowed only \$625,000 and had paid back \$72,000 leaving a balance of \$553,000. The above is based on the original schedule.

See accompanying independent auditor's report

City of Hudson

Schedule of Receipts by Source and Disbursements By Function
All Governmental Funds

For the Last Four Years Ended June 30

	2009	2008	2007	2006	2005
Receipts:					
Property tax	\$ 702,182	664,085	663,057	679,949	579,612
Tax increment financing	85,849	83,541	53,445	61,042	337,583
Other city tax	256,879	252,649	224,717	233,252	218,195
Licenses and permits	39,445	43,283	37,024	40,125	33,009
Use of money and property	109,803	87,998	114,536	104,153	76,821
Intergovernmental	304,243	329,042	288,862	400,681	430,497
Charges for service	65,139	63,575	41,355	25,971	27,054
Special assessments	-	-	-	-	-
Miscellaneous	26,476	76,147	32,389	37,620	32,569
Total	\$1,590,016	1,600,320	1,455,385	1,582,793	1,735,340
Disbursements:					
Operating:					
Public safety	\$ 733,212	407,123	408,563	435,337	344,562
Public works	325,640	332,346	960,408	599,231	321,786
Health and social services	3,045	3,000	4,500	2,500	1,787
Culture and recreation	306,881	310,679	314,752	276,246	346,490
Community and economic development	44,230	46,921	601,328	140,978	74,673
General government	240,505	241,598	227,196	245,170	208,078
Debt service	203,338	206,939	106,938	952,913	177,773
Capital projects	-	383,001	-	38,395	123,745
Total	\$1,856,851	1,931,607	2,623,685	2,690,770	1,598,894

See accompanying independent auditor's report



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hudson, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 16, 2009. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hudson's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Hudson's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hudson's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Hudson's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Hudson's financial statements that is more than inconsequential will not be prevented or detected by the City of Hudson's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Hudson's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-09, is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hudson's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the city's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Hudson's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit Hudson's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the city of Hudson and other parties to whom Hudson may report, including federal awarding agencies. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Hudson during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

November 16, 2009

City of Hudson

City of Hudson

Schedule of Findings and Questioned Costs

June 30, 2009

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-09 Reconciliation of Bank Statement – One important aspect of the control of cash is the reconciliation of City's Fund Balance to bank statements. That reconciliation should be reviewed by another individual and in turn reconciled to the Clerk's report. We noted that the City was reconciling the City's Fund Balance to bank statements, but the June 30, 2009 bank reconciliation did not agree with the Clerk's report. Adjustments were made to the Clerks report, but not shown on the bank reconciliation.

Recommendation – All adjustments to the Clerk's report should be reflected on the bank reconciliation.

Response – The City will be sure that all adjustments to the Clerk's report will be reflected on the bank reconciliations.

Conclusion – Response accepted.

II-B-09 Significant Deficiency – The City of Hudson, Iowa does not employ an accounting staff with the technical expertise to prepare its financial statements (including footnotes disclosures) in conformity with accounting principles general accepted in the United States of America; therefore, it relies on its auditors to prepare such statements.

Management Response – Management feels that having the auditors draft the financial statements and notes is a tolerable situation. Internal financial statements are prepared monthly for reporting and decision making purposes. The requirements and form of the audited statements are different than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements. Management approves the draft financial statements prior to their issuance.

City of Hudson

Schedule of Findings and Questioned Costs

June 30, 2009

- II-C-09 Transfer of Funds – The City transferred \$1,121,444 from the Electric Fund to the General-Hudson Reserve Fund that was not shown in the transfer resolution.

Recommendation – All transfers should be approved by the Council with a resolution.

Response – The City will approve all transfers in the future by resolution.

Conclusion – Response accepted.

- II-D-09 Miscoding of Property Tax Revenue – In reconciling property taxes per the County we found \$2,631 coded to the General Fund that should have been coded to Special Revenue – Employee Benefits.

Recommendation – In the future the City should reconcile property taxes to County records. The City should transfer the \$2,631 from the General Fund to Special Revenue-Employee Benefits to correct this miscoding.

Response – The City will reconcile property tax revenues to County records in the future and will transfer \$2,631 from the General Fund to Special Revenue-Employee Benefits. This transfer was approved by the City Council at the September 28, 2009 meeting when it passed Resolution #1200.

Conclusion – Response accepted.

- II-E-09 Sinking Fund – The City has not set up a “Sinking Fund” to comply with the debt provisions of their Sewer Revenue Capital Loan Note and their Water Revenue Capital Note. The provisions of those notes require a “sinking fund” and transfers to that Fund. See Note 3 for transfer amounts.

Recommendation – The City should set up a “Sinking Fund” and make the required transfers monthly to that Fund. Payments may be made from the “Sinking Fund”.

Response – At the September 28, 2009 Council meeting the city passed Resolution #1198 establishing the Hudson Reserve Fund as a Special Revenue Fund and to transfer funds to satisfy debt provisions.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

Part III: Findings and Questioned Costs for Federal Awards:

There were no findings and questioned costs for federal awards.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-09 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2009.

IV-B-09 Certified Budget – City disbursements during the year ended June 30, 2009 exceed the amounts budgeted in the Public Works and in the Debt Service Programs. The City published notice of public hearing on the budget, including a summary of the proposed budget as required by Chapter 384.16 of the Code of Iowa.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

IV-C-09 Questionable Disbursements – We noted no disbursements that fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-09 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-09 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Mary Bucy, Library Director, Owner of Bucy Cleaning	Janitorial services	\$ 5,786

The transaction with the Library Director does not appear to represent a conflict of interest since it was entered into through competitive bidding.

IV-F-09 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-09 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-H-09 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

City of Hudson

Staff

This audit was performed by:

Donald A. Snitker, CPA, Audit Partner

Al Flick, CPA, Staff